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ABSTRACT

This guide is one of a series of four such guides that are directed toward those people who provide financial counseling to consumers who have problems with overindebtedness. Recognizing that many who serve as financial counselors have little training in the field (for example, clergymen or social workers), the guides are not offered as complete courses in financial counseling, but as practical prototype manuals focusing on the most important areas for counseling: basic techniques, rehabilitative financial planning, and an overview of common problems with credit and debt. By using examples of client-counselor exchanges, as well as detailed exercises for the counselor, the guides help the counselor increase his/her effectiveness with the client. This particular guide is designed to assist the counselor in becoming more effective in helping clients decrease living expenses, increase income, and adjust debt payments. (Author/HC)

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DEVELOPING A CLIENT'S REHABILITATIVE FINANCIAL PLAN

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FOREWORD

This series of modules was developed at Virginia Polytechnic Institute and State University with the assistance of a grant from the U.S. Office of Education. The modules are designed to fill the need for learning materials in the rapidly expanding field of family financial counseling.

The effects of inflation and dramatic increases in the costs of food, utilities, transportation and medical expenses have left many Americans deep in financial trouble. Many individuals and families find themselves overindebted with consumer credit bills that they cannot pay, partly due, to increases in living expenses. Others, in response to advertising pressure and the lure of the "good life," have gone over their heads in debt trying to "keep up with the Joneses." These people often search for someone who can help them out of their financial difficulties.

There is a wide range of people who can, and often do, provide financial counseling to those who have problems with overindebtedness. The one type of agency that specifically deals with these problems is the Consumer Credit Counseling Service, with some 200 affiliated agencies throughout the country. People who live in areas without a CCCS turn to social service agencies, social workers, clergymen, extension agents, home economics teachers, community action programs, credit unions and other credit lenders, in addition to other sources for help. Many of the above professionals have no specific training in how to deal with problems of personal or family finance and find it impossible to locate educational materials to teach them how to give assistance with financial problems.

The field of "financial counseling" is very broad and includes such areas as investment counseling, estate planning, budget counseling, and even consumer education. These modules specifically address those counselors who assist people with problems of overindebtedness or over-extension of consumer credit. The broader term "financial counselor" is used throughout the modules although the material presented deals specifically with issues that relate to the function of a debt counselor--one who assists people who have problems with credit and debt.

The materials we have developed are referred to as "modules." Using the modular approach, a broad field, such as financial counseling, is broken down into its component parts. Then, each part of the field is addressed by a separate packet of instructional materials, called a module. Each module is self-contained and needs no other reference materials or special equipment to be used effectively.

The primary strength of using the modular approach for these particular materials on financial counseling is related to the types of people who are most likely to use them. Most of the people who want additional training in financial counseling are already employed

full time. They cannot afford the time to read an entire manual or the expense to travel to a workshop. But they can take advantage of any free time in their busy schedule to work through all or part of a module. In effect, they can use time available at work for training and professional development without sacrificing on-the-job effectiveness.

This module is one of a series about family financial counseling. Neither this module by itself, nor the series of four produced by this project, represents a complete course on the topic. The objective of the project was to identify the areas of greatest need for training materials in the field, and to develop prototype materials in the most important areas.

To determine in which areas of family financial counseling there existed the greatest need for new instructional materials, we surveyed a wide cross-section of people who work directly or indirectly with people and their financial dealings. Consumer credit counselors, welfare agencies, credit union personnel, social workers, extension agents, clergymen, bankruptcy trustees, community action program workers and others were included in both our nationwide and in-depth Virginia surveys.

Our findings indicated that the greatest need for new materials existed in the areas of:

1. Basic counseling techniques
2. Developing a rehabilitative financial plan
3. An overview of the types of problems people have with credit and debt

The above areas are listed in their reported order of importance.

The project staff, keeping within its budget and time limitations, responded by developing four modules. Two of the modules present instructional materials in basic counseling techniques. Another deals with the process of developing a rehabilitative financial plan for an individual or family experiencing financial problems. The fourth is an overview of the types of problems that people have with credit and debt, with some suggestions for solutions for each type of problem.

These four modules barely scratch the surface of a field in which twenty or more training modules could be developed for a complete course in financial counseling. We hope that these modules will provide the direction for future development of a complete set of training materials for persons who want to develop skills in this field.

In response to a growing consciousness of sex-typed references in written materials, the authors have taken great care to avoid sex-linked wording. English is the only language in which this problem exists and to write without using "he, she, him or her" is difficult. In some cases the use of these reference words is required to retain the readability of the materials. In the passages in which sex-referenced words are used, the authors intend no sex-related stereotyping since of both indebted clients and financial counselors, half are likely to be women and half men.

INTRODUCTION

This module presents information designed to assist you in becoming more effective in helping clients solve financial problems related to:

1. How to decrease living expenses
2. How to increase income
3. How to adjust debt payments

The above elements in solving financial problems are examined to provide possible actions that clients may take to help them get out of debt. The module emphasizes the fact that problem solving is related to making changes in living styles and finances.

The module contains information which will be beneficial in finding out general information on how to solve financial problems. Specific steps in developing a new financial plan are presented utilizing the procedures of:

1. Assessing the situation by determining the present income, expenses, and debts
2. Discovering the problem
3. Drawing up a new budget

Planning is essential but plans alone are not enough. Implementing the plan is most essential. A record keeping system is necessary. The record keeping system provides three important ingredients to help implement the budget. The most important ingredients are:

1. Keep accurate, complete records
2. Use the records to predict future problems and make changes in the budget
3. Start a savings account

The module provides exercises for your use in reviewing and practicing the implementation of the techniques and concepts presented. Recommended answers are provided to check your answers as you work through the module. The recommended answers are located on the answer sheets in the Appendix following the exercises.

Compare your answers with the recommended answers to determine whether you have learned the material presented. If you are not able to give satisfactory answers, go back and review the parts of the section that you have learned.

NOTE: THERE IS ONLY ONE SET OF EXERCISE SHEETS PROVIDED FOR THIS MODULE. IF MORE THAN ONE PERSON IS EXPECTED TO USE THE MODULE, WE RECOMMEND THAT YOU MAKE AND USE PHOTO-COPIES OF THE EXERCISES SO THAT THE MODULE CAN BE RE-USED BY OTHERS.

HOW TO SOLVE FINANCIAL PROBLEMS

This module is aimed at training counselors who work with clients whose problem is overindebtedness--those persons who are not able to pay their bills with the amount of income they receive. In the simplest terms possible, we are defining the problem as a situation in which clients' income is less than the amount of their monthly living expenses including their debt payments.

To solve these kinds of problems, it is necessary to create the conditions in which the client's income is sufficient to meet living expenses and debt payments. To do this, there are three types of things that can be done:

- INCREASE INCOME
- DECREASE LIVING EXPENSES
- ADJUST DEBT PAYMENTS

Each of these elements of solving financial problems will be examined briefly to expose the counselor to possible actions that clients can take to get themselves out of their problem situation. It must be stressed that <u>problem solving is directly related to making changes</u>.

Put very simply, the condition of being involved in financial problems is a result of the actions of clients--how much they earn, how much they spend, and how many debts they have contracted. As long as clients do not change their actions, their problems will continue to exist. Only by making <u>changes</u> in their actions can clients change their financial condition.

People react to change in different ways. Some people are very open to making changes in their lifestyle or goals while others are very rigid about such matters and will actively resist change. Some people are very creative in the kinds of changes they will consider. Others just don't give much thought to the kinds of changes they could make to better their financial condition.

Generally speaking, people who are willing to explore new ways of doing things are much better at problem solving than those who refuse to look at the alternatives and make changes. Also, the more <u>creative</u> clients are about the types of changes that they will consider, the more alternatives they will have to choose from when it comes time to take action.

In all fairness, financial counselors cannot realistically expect many of their clients to be creative problem solvers. Those people who

are the most creative and open to new ideas and changes are likely to solve their own problems without the assistance of a financial counselor. You can therefore expect that most of your clients will be people who lack problem-solving skills and who may resist making changes.

You must remember that change is the key to solving financial problems. As long as no change is made, the condition will remain the same.

TURN TO APPENDIX I AND COMPLETE EXERCISE A-1. When you have completed this exercise satisfactorily, return to the next page and begin the next section.

Increase Income

The main idea behind this element is, "If you don't have enough money to pay the bills, get more money." This is easy enough to say, but if more money were easy to get, most people would already have it. People generally like money--they put a great value on it. And people who don't have enough to pay the bills are often more money-conscious than those who do. As a result, people who find themselves strapped with financial problems are likely to have already done what they think is possible to increase their income.

One way to increase the income of a family is to increase the number of family members who work. A non-working wife could look for full- or part-time work. Children, if old enough, could get a paper route, do odd jobs, or find part-time work after school.

When a housewife with small children considers going to work, it is extremely important to determine what the net additional income will be after the expenses of her work are deducted. If child care expenses will result from her working, this must be subtracted from her income. Many jobs require a different type of clothing than is normally worn around the house. If new clothes are necessary, this expense must also be deducted from her expected earnings. She may have to pay for transportation to and from work and possibly for parking while at work. Also, working mothers frequently are less able or willing to continue the same cooking habits that they had when they were at home all day. If more convenience foods are used or if the family eats more meals out at restaurants, this expense must be considered. The family should also consider whether outside help will be needed to assist with household chores.

In some cases a woman may feel guilty about leaving small children in the care of others in order to get a job. This could cause psychological effects that would be detrimental to the family. This "psychological expense" must also be considered.

Sometimes you will find, especially in cases where a housewife with small children goes to work, that her job actually results in more expense than the income produced by the job. The amount of net income to the family, after expenses are subtracted, should be carefully estimated before the final decision to go to work is made.

In cases where a child takes a paper route, some parents drive the child around the route in the family car. With the high cost of gasoline, this expense should be considered as it may wipe out the earnings gained from the paper route. When children elect to do odd jobs, one should consider if the tools to perform the jobs are available. For example, a child who wants to mow lawns may find that a new mower must be bought or the old one repaired. These costs should be considered before the child makes agreements with people to mow their lawns.

Finally there is the problem that was referred to earlier about people making changes. In some families there is the belief that "a woman's place is in the home," or that "children shouldn't have to work." Many people will not want to change these beliefs even if it is the only way for them to solve their financial problems.

In the situation where a family will not consider having additional members of the family work to increase income, they have limited their possible alternatives for solving their financial problems. The counselor must point this out so that the clients realize what they are doing to the process of problem solving--limiting their alternatives. By teaching clients this step in the problem-solving process you increase the clients' awareness of how effective problem solving is done. This gives them tools with which they can improve their problem-solving ability both for the present financial problem and to deal with future problems that they may encounter.

Another way to increase family income is for an employed person to "moonlight"--to take an additional part-time job. As with other family members seeking work, the expenses involved in taking another job must be considered. Transportation to the other job, parking fees, uniforms (if they are used) or special equipment if needed for the job all reduce the amount of income gained from the additional job.

There is the additional "expense" of being away from the family more. Men who moonlight for extended periods of time become "ghost fathers." They rarely see their children or wife, and this can be a cause of family tension or arguments. This additional "expense" should be carefully weighed before one takes on an additional job.

Another way to increase income is by changing jobs. This alternative may not apply to all clients, but it is something to consider in many cases. When clients elect to consider this alternative they have to do some work. They must analyze their abilities and skills and find out what types of work they are qualified for. Then they must investigate the job market in their area to find out what opportunities exist for them.

Most financial counselors believe that assisting clients in this endeavor is not a part of their work. They are probably justified in this belief. Still, counselors can assist their clients by informing them of where they can go for help in their search for a different job, and can refer their clients to other agencies for appropriate help.

Many clients lack the skills to prepare a good resumé of work experience or the skills to conduct a good job interview. Yet, these skills are essential to be successful in seeking employment. While financial counselors are not likely to have time to assist clients with this, they can refer clients to a place in their area that can help the client to develop these skills.

Changing jobs is a difficult task for many people, like making any changes in the way they have chosen to live. In many cases, however,

the process of self-analysis that accompanies seeking a change of work is beneficial to the client and expands the client's horizons. An example of creatively changing jobs might help to point this out.

In an actual case, one client was a middle-aged woman, recently divorced from her well-to-do husband. In the settlement, she received the couple's large house, car, furniture, etc., but no financial support. This woman was working as a maid in a local motel since, according to her, "All I've ever done is keep house and this is about all a housewife is experienced at doing." Her income as a maid was barely enough for food and utility payments, and she was in danger of losing her house to property taxes and upkeep expenses.

In counseling, this woman revealed that while married she and her husband had owned three houses, each of which she had designed and decorated. Her homes were frequently included in an annual "Parade of Homes" in her city, and she had won a grand prize award for decorating the house in which she now lived. Her decorating had been written up in newspapers and had been featured in a national magazine.

This woman was encouraged to put all her newspaper and magazine clippings together in a folder along with awards and references, and to apply as an interior decorator with the types of businesses that could use such a person. In a short time she was hired as an interior decorator by a major department store and has since gone on to do design consulting in addition to her regular work. Her income increased dramatically, and she is now working as a professional in a field that she truly enjoys and that gives her great personal satisfaction.

For this woman, a creative approach to job-changing not only solved her money problems--it also resulted in a great deal of personal growth and satisfaction as she moved into a position that truly reflected her skills, interests and abilities. Many people can benefit from this kind of change in their lives by making better use of the abilities and experience that they possess.

This is especially true of women entering the job market due to divorce or when the children have grown up and moved away. If a housewife's only skills were cleaning floors and making beds, the American family would indeed be in a sorry state of affairs. The American housewife is usually financial manager, nurse, counselor, social secretary, interior decorator, purchasing agent, maintenance supervisor, teacher, fashion coordinator, decision maker, etc., in addition to the basic cooking and cleaning that she does. She rarely gets much credit for these larger responsibilities even though they develop valuable skills for the outside job market.

Many men, as well, have unused talents that are wasted in routine, boring, low-paying jobs. By moving to more challenging and rewarding types of work they can often make more money. Frequently they will also find more satisfaction in another type of work.

It could be argued that people who aren't satisfied in their work compensate by seeking satisfaction elsewhere. The desire for campers, motorcycles, expensive TV's and stereo equipment and many of the other "adult toys" may sometimes be a response to job dissatisfaction. Some people may retreat to overuse of alcohol, gambling and other wasteful activities. So, finding a more rewarding job may well have multiple effects on one's financial situation--both increasing income and in reducing desires for satisfaction outside of work.

TURN TO APPENDIX I AND COMPLETE EXERCISE A-2. When you have satisfactorily completed this exercise, return to the next page and begin the next section.

Decrease Living Expenses

Each of us has a lifestyle. One major aspect of that lifestyle is our use of money. Most people want things that they can't afford, and some people simply refuse to do without the things that they want very much, even if they can't afford them. Often these people will purchase the things they want using credit. When they extend their credit too far, they may find that they have created a serious financial problem for themselves.

Financial counselors should realize that the way their clients spend money reflects their personal values and the things in life that are important to them. Changing the way they spend their money means to clients that they must give up doing things the way they want. This makes change very difficult. Just like changing any behavior, changing the way people spend their money is difficult. It usually means changing their lifestyle. It could well mean changing habits and patterns that they've held all their lives.

In the portion of the interview that you use to discuss ways of cutting expenses, you will frequently find a great deal of client resistance to changing how they spend their money. This is normal. To change spending habits, people must review many decisions that they have made regarding what is important to them. Their present use of money indicates that they don't want to do without, or to do with less than they have now. Still, some change must be made or the financial problem will persist.

There are basically two ways to decrease living expenses: to cut down or to cut out. Some expenses can be cut out--eliminated entirely. Examples of this might be to quit smoking cigarettes, cut out trips to the beauty parlor, to stop going to movies. Other expenses are necessary and cannot be cut out entirely, but may be cut down. The grocery bill is a good example. Nobody can go without food entirely, but people can certainly cut grocery bills by reducing purchases of convenience items, junk foods, soda and expensive types of foods.

A discussion of how to decrease living expenses can only begin after present expenses have been determined. This step will be covered later and an expense-listing sheet will be shown. Once this sheet has been filled out, the counselor can approach the subject of reducing expenses in a number of ways. This will be determined by the style of the counselor, the type of agency where the counselor works, by the amount of time spent per client and perhaps other influencing factors.

One way to begin might be to give the clients a copy of the expense sheet and instruct them to note which items could be cut out entirely. Then they could note which items can be cut down, and estimate how much they think they can reduce each of these items. This task could be done at home by the clients between the first and second interviews to save counselor time and to give the clients more time to think about each item.

You will frequently hear client statements like, "We've already cut everything down to the bone," and "we've already given up everything we can." In some cases, this will be accurate. In others, these kinds of statements mean, "We aren't willing to make any more cuts," or "We simply won't do without anything else." This indicates the client's resistance to change.

Here again you will find all kinds of clients. Some are remarkably flexible in what kinds of budget cuts they are willing to consider. Others don't intend to cut a penny. You surely don't have to guess at which of these two types of clients is easier to work with.

Keep in mind also that some budget cuts actually may not be wise. Cutting out auto insurance is a good example. Some agencies have a policy of refusing to enter into a debt repayment plan with clients who drive without auto liability insurance. The last thing you want for clients is to start on a successful debt repayment plan only for them to have an auto accident and be stuck with a court judgment for a couple of thousand dollars of additional debt. Cutting down on dental and medical checkups is similarly foolish. There are some expenses that must be maintained in the best interest of the family and its individual members.

TURN TO APPENDIX I AND COMPLETE EXERCISE A-3. When you have completed this exercise, return to the next page and begin the next section.

Adjust Debt Payments

In the simplest terms possible, debt adjustment is reducing the amount of the payments that is paid to creditors. There is one theory of debt adjustment that is called pro-rating. Working by this method each creditor is paid a "fair-share" percentage of their regular monthly payment. The idea behind this scheme is, "if the clients don't have enough money to make all payments in full, find out how much they can pay and send a fair share to each creditor." The following simplified examples will help to illustrate how this system works. Two variations of pro-rating methods are shown.

Method I - Percentage of Monthly Payment

1) The client has the following debts:

Creditor	Balance Owed	Monthly Payment
Third National Bank	$3,000	$100
Ace Finance Company	1,500	60
Dr. Welby	300	20
Fred's Collection Service	200	20
Total	$5,000	$200

2) After subtracting necessary living expenses from income, the client can only make $150 per month available for debt payments. This is 75% of regular payments.

3) Each creditor is offered a pro-rated payment, 75% of their regular monthly payment:

Creditor	Regular Payment	Pro-rated Payment
Third National Bank	$100 (X .75)	$ 75
Ace Finance Company	60 (X .75)	45
Dr. Welby	20 (X .75)	15
Fred's Collection Service	20 (X .75)	15
		$150

Method II - Percentage of Total Debt

1) Client has the same debts as above.

2) Each creditor holds the following percentage of the total debt:

Creditor	Balance Owed	Percentage
Third National Bank	$3,000 (+ $5,000)	60%
Ace Finance Company	1,500 (+ 5,000)	30%
Dr. Welby	300 (+ 5,000)	6%
Fred's Collection Service	200 (+ 5,000)	4%

3) The client can afford to pay only $150 per month toward debts.

4) Each creditor is paid a fair share of the $150 per month according to the percent of total debt that is owed them:

Creditor	Total Monthly Payment	Creditor's Share
Third National Bank	$150 (X .60)	$ 90
Ace Finance Company	150 (X .30)	45
Dr. Welby	150 (X .06)	9
Fred's Collection Service	150 (X .04)	6
		$150

The two above examples should be enough to point out clearly that how "fair" a share of the debt payment each creditor receives depends on what method is used to determine the "fair" share. Dr. Welby and Fred are apt to be most pleased with Method I. However, since the bank and the finance company receive a bigger "fair share" when figured by Method II, they will probably favor that method for this client.

Pro-rating is only a theoretical formula to use to adjust payments. In reality, adjusting debt payments doesn't work that easily. Some creditors won't reduce their payments a penny. Others may be very easy to negotiate with. Some may even waive payments for as long as three or four months in a case where the client is having a severe problem such as serious illness, injury or unemployment.

Each creditor will have a different policy or procedure to use for the clients of a financial counselor. The counselor must learn what those policies are so that debt payments can not only be distributed as fairly as possible, but that the demands of various creditors can be met as well.

A full discussion of various creditor policies and of how to negotiate with creditors is beyond the scope of this module. The Credit Counselor Training Handbook, distributed by the Michigan Credit Counseling Centers, Inc., contains excellent discussions of these issues and would benefit the beginning financial counselor greatly.

Bear in mind that creditors will usually negotiate payments somewhat. They are not likely to take ten cents on the dollar or a $10 payment on a balance of $2,000. Reasonable reductions in debt payments can be negotiated, but if your client can only free up $50 per month to put toward a monthly debt load of $4000, your chance of gaining creditor cooperation is minimal. If you make unreasonable requests of creditors you risk losing their respect and cooperation for all future clients.

TURN TO APPENDIX I AND COMPLETE EXERCISE A-4. When you have satisfactorily completed this exercise, turn to the next page and begin the next section.

Summary

You have now examined the three elements involved in solving financial problems:

- Increasing Income
- Decreasing Living Expenses
- Adjusting Debt Payments

These three elements are closely interrelated. If a client's income can be increased substantially, it may not be necessary to cut much from present living expenses or debt payments. On the other hand, if income cannot be increased at all, then living expenses or debt payments or both must be cut enough to bring expenses back down to the client's income level.

When counseling clients, you can inform them that the options or alternatives that they have to choose from lie in these three areas. And only in these three areas. There are no magic solutions. You are a financial counselor, not a fairy godmother, who with a wave of your wand, can make their financial problems disappear. Even bankruptcy, the severest form of debt adjustment, is not always a permanent solution to financial problems.

It is estimated that about 20 percent of the people who declare bankruptcy return to do it again because they didn't solve their real problem the first time. And about half of those who go through bankruptcy report that they are having additional financial problems within two years.

One important part of developing a rehabilitative financial plan is educating clients to realize that spending more money than they have is the cause of most financial problems. A prime reason why bankruptcy is such a poor long-term solution is that it lacks one essential part: change in attitudes toward money and spending habits and patterns. Bankruptcy clients are told to take care and manage their financial affairs better in the future, but rarely are they counseled in what caused their problem or taught how to avoid financial problems in the future.

Former bankrupts frequently do not change the way they handle money. And the key to successful problem solving is change. The person who after bankruptcy goes right back out and continues to manage money the same way as before will soon pile up a new set of debts just like the ones that were voided in the bankruptcy. The same thing can happen to clients who have received financial counseling. Unless there is enough change in the clients' financial management habits, so that expenses can be brought down to the level of income, their financial problems are likely to persist or reappear.

STEPS IN DEVELOPING THE NEW FINANCIAL PLAN

Assessing the Present Situation

In this module we are aiming the instruction at people who will deal with overindebtedness, problems with credit and debt. Those persons who are too deep in debt will be experiencing the general problem that their income is less than their "outgo." The first step in developing a financial plan to get clients back on their feet financially is to find out as much as possible about the client's current financial status. There are three specific things that the counselor needs to determine the client's present financial situation:

1. Present income
2. Present monthly expenses
3. Present debt load

There are several reasons why it is important to get full information about the client's present financial situation. First, in terms of counseling, this step is essential to determine the caure of the client's problem. Only by tracking down how the client manages money now can the counselor find out why the client got into financial trouble. This information also helps the counselor to determine in which areas change in spending habits is possible or necessary.

Second, the client's existing financial situation will usually have a strong influence on the rehabilitative plan that is eventually worked out. All clients have fixed expenses in their budgets. Fixed expenses are regular monthly expenses such as house or rent payments, utility payments, fixed debt payments, food costs, etc. These fixed expenses limit the range of changes that can be made in how the client manages money.

Third, this process of assessing a client's present financial status is important in making clients more aware of where their money goes. Most clients do not have a budget. You will rarely find clients that keep financial records of how they spend their money. The assessment of the client's present financial condition will frequently be an eye-opening experience for clients who have never had a financial plan.

One client couple each smoked 3½ packs of cigarettes a day. They spent around $100 a month on cigarettes. When this fact was brought into their awareness, they both quit smoking--cold turkey. Another client drank an eight-pack of half-quarts of diet soft drink per day. When she realized that this habit was costing close to $50 per month, she switched to making her own iced tea at home at a fraction of the cost.

Most people who get into financial difficulty have no plan for directing how they will spend their money. Rather than managing their money, their money manages them. The amount of money they have (or don't have) controls what they do, where they go, what things they have.

People with a financial plan, on the other hand, prepare in advance how much of their limited financial resources they will spend on necessary items such as housing, food and clothing. They then plan to use their remaining money to get the most of what other things they want.

In order to create such a plan for clients who are experiencing financial problems, the first step necessary is to determine present spending habits. To do this, the counselor must take an inventory of present expenses. Too often when clients are asked to make a list of all their monthly expenses, they will bring in a list of five to ten major items. In reality, a family's expenses go to many different things, each of which must be noted.

On the next page is a checklist of monthly expenses, adapted from the one that is used by financial counselors at one credit counseling service. Note that there are well over 50 items on this checklist and that this list is not totally complete. Such items as vacations, furniture, maintenance on house and appliances, depreciation on cars and appliances are not included. If everything were individually itemized, the list could probably fill two pages.

One purpose of using such an extensive list is to make clients realize that their money goes in many, many ways for many different things. Financial counselors working with clients who are experiencing financial problems will frequently find that their clients' monthly living expenses exceed their income before debt payments are considered. By continually using credit to purchase the things they can't afford right now with cash, clients use credit as a means to supplement their income.

When clients realize that there are so many demands on their money, and when they realize that the credit load they have built up over the years must now be paid for, they begin to understand that they must make either substantially more income or drastic cuts in their living expenses. To illustrate what is meant by this, note carefully the following example:

Example

1. The Jones family, two years ago, had $800 in savings and they were debt free. Then they had their first child and Mrs. Jones quit working. She is now pregnant with their second child.

2. The Jones family now has $4000 in debts and no savings. Mr. Jones brings home $1000 per month and that is their only source of income.

3. In the last two years, the Joneses have spent $4800 more than they have made in income ($4000 debt plus $800 savings). This averages $200 per month that they have spent in excess of their income.

MONTHLY EXPENSES

SHELTER:	Rent or mortgage payment	$
	Property tax, insurance	$
	Fuel (heat)	$
	Gas & electric	$
	Water, sewer & garbage	$
	Other (explain), Maintenance	$
FOOD:	Groceries	$
	Meals out (coffee breaks)	$
	School lunches	$
CLOTHING:	Normal needs	$
	School clothes	$
	Seasonal	$
	Laundry & dry cleaning & repair	$
	Other (special events)	$
HOUSEHOLD EXPENSES:	Cable TV	$
	Water softener	$
	Normal repairs	$
	Towels, linens, etc.	$
	Cleaning supplies	$
	Telephone	$
TRANSPORTATION:	Gas & oil	$
	Auto repairs	$
	Insurance, license, inspection, etc.	$
	Public transportation, parking	$
HEALTH:	Doctor	$
	Dentist	$
	Prescriptions & drugs	$
	Glasses	$
	Insurance	$
	Other (explain)	$
PERSONAL EXPENSES:	Self	$
	Spouse	$
	Children: school costs, allowance, etc.	$
	Beauty care	$
	Recreation	$
	Hobbies, pets, gifts, music lessons, etc.	$
INSURANCE:	Life insurance	$
	Retirement fund	$
MISCELLANEOUS:	Newspapers, magazines, record clubs, etc.	$
	Organizations (unions, lodges, clubs, etc.)	$
	Church	$
	Education (books, supplies, tuition)	$
	Babysitting	$
	Alimony/child support	$
	Cigarettes, alcohol	$
SAVINGS:		$

Adapted from Madison Consumer Credit Counseling Service, Madison, Wisconsin.

4. This means that they have become accustomed to living at a level of $1200 per month in expenses.

5. To be debt free in two years, the Joneses must not only cut their expenses down to $1000 per month equalling their income. They must cut an additional $200 per month to pay off the debt.

6. The net result is that if the Joneses want, in two years, to reverse their direction and get back to a situation of being debt-free and with savings, they must cut expenses by one-third, or $400 per month. This means that they must now live on $800 per month rather than the $1200 per month to which they have become accustomed. To cut expenses this much means some drastic changes in how the Joneses spend money.

This example illustrates the compound nature of the solution to the financial problems of overindebted clients. They not only must cut their spending back to match their income. They must cut back enough in addition to pay off the accrued debts. This, in effect, is a double reduction of the money available for day-to-day living.

TURN TO APPENDIX I AND COMPLETE EXERCISE B-1. When you have completed this exercise satisfactorily, return to the next page and begin the next section.

1. Determining Present Income

For many clients, determining present income is quite simple. If there is one wage-earner on salary at $1200 per month with $200 per month deducted for taxes and Social Security, the client's net income is $1000 per month, no more, no less.

For hourly wage earners with occasional overtime, determining income is not quite so easy. For best results estimate low. If the overtime is rare, it's best not to count it at all and consider it as an occasional "gift."

For seasonal workers, such as those in the construction trades, estimating income can be very difficult. Since annual income depends somewhat on the weather and the economy, the best way to estimate is by using annual tax returns. Figure the annual net pay, add the amount received from Unemployment Compensation during unemployed times, and divide by twelve for an estimate of monthly income.

A tough group of people to figure income for are sales persons who travel. Although their earnings are usually high, their expenses frequently drain a substantial portion of their income. You will hear them say not to count the expenses--they're deductible. This may be true for tax purposes, but you aren't the tax collector. That expense money, unless it is reimbursed by the employer, is not take-home pay and it is not available as spending money.

Income is usually figured on a monthly basis. For persons who are paid on a weekly or bi-weekly basis, monthly income can be figured as 4 1/3 times the weekly rates. However, it is better to estimate income low and use the four-week income as your baseline. This leaves the extra four weekly or two bi-weekly paychecks as a "bonus" that can be set aside for savings, used to meet emergency expenses, or for a special occasion such as Christmas expenses.

The above suggestion to estimate low for income applies to all situations. One of the reasons why many persons fall short and have trouble paying their bills is because they planned on having more income than they actually received. By estimating income low, you provide a possible cushion that can be used to meet unexpected expenses, or that can be used to break the monotony of a really tight budget.

TURN TO APPENDIX I AND COMPLETE EXERCISE B-2. When you have completed this exercise satisfactorily, return to the next page and begin the next section.

2. Determining Present Expenses

This subject has already been introduced but there are important aspects of this activity that a financial counselor must be aware of. First, it is wise to remember that whatever figure you finally reach for monthly expenses, it will be an estimate. You may do financial counseling for years and not have a single client who has kept the kind of detailed records necessary to accurately determine expenses.

Secondly, it must be remembered that expenses vary from week to week and month to month. Families with children usually spend more on clothes the month before school starts to get the kids set with back-to-school clothes. People also spend more in December (due to Christmas) than in January.

Nevertheless, even though the monthly expense figure that you reach is just an estimate, you need a general level of expense to help you get as true a picture of your clients' present situation as possible. There also are fixed expenses that you will find during this process that heavily influence the final rehabilitative budget that is agreed upon to solve the client's problems.

There are basically two kinds of expenses:

1. Regular monthly expenses
2. Irregular expenses

Examples of regular monthly expenses are rent or mortgage payments, the telephone bill, car payments, groceries, and the gas and electric bill. Examples of irregular expenses could be medical bills, repairs to home appliances, car repairs, clothing and gifts.

To reach as accurate an estimate as possible of a client's total expenses, it is necessary to use a system to classify expenses. The system that you use can also be used in developing the client's rehabilitative budget. Following is one systematic approach to determine clients' expenses. This system requires three separate forms that group expenses into the categories of:

1. Regular monthly expenses
2. Irregular expenses
3. Debt payments

The third item, debt payments, will be covered in the next section of this module. Now, we will deal with the regular and irregular expenses. Please remember that this is just one example of an expense listing system. You may want to modify this system or create a totally different one of your own, depending on your personal counseling needs or the needs of the agency where you work.

Start with the expense listing sheet on page 17. This sheet covers most of the regular expenses that an individual or a family is likely to

ANNUAL IRREGULAR EXPENSE SHEET

	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.
Car Repairs												
Clothing												
Insurance Premiums												
Vacation												
Christmas												
Gifts												
Medical												
Dental												
School Expenses												
Trips												
Total/mo												

Adapted from Madison Consumer Credit Counseling Services, Inc., Madison, WI.

have on a monthly basis. List the expenses that occur monthly, or determine an amount that represents the average cost of that item for a month.

Once the regular expenses have been listed, start with the annual irregular expense sheet, page 21. Here you are to get your client to estimate the amount spent annually on irregular expenses. A "guesstimate" is usually all you can get from a client about these irregular or unpredictable expenses. After all, one rarely knows in advance when the car will die and have to be towed in to a repair shop. And people usually don't plan for the kids to each come up with a mouthful of cavities.

When the annual expense sheet is filled out, you total up all the annual irregular expenses. This total, divided by twelve, gives you an estimate of how much, on the average, these unpredictable or irregular expenses will cost per month.

You may want to transfer certain items from the regular expense sheet to your irregular expense sheet. Some likely items to transfer would be car repairs, medical expenses, gifts and insurance premiums (if they are not paid on a monthly basis). The entire Clothing section is another item that could easily be transferred to irregular expenses.

TURN TO APPENDIX I AND COMPLETE EXERCISE B-3. When you have satisfactorily completed this exercise, return to the next page and begin the next section.

3. Determining Present Debts

First let us understand that this material is intended for use by a wide range of persons who will be working with overindebted clients. It follows that because of the nature of the differences in the functions of these various people, different levels of information will be needed in this step, determining present debts.

For example, if you will be filling the function of a budget advisor and will not be contacting or negotiating with creditors on behalf of your client, you will probably only need to know the current balance of each account and the amount of the monthly payment. If, on the other hand, you intend to contact creditors and negotiate payments with them, you will need full and complete information about all your client's accounts, including the following information on each account:

- Creditor name and mailing address
- Account number
- Name of credit manager
- Telephone number
- Current account balance
- Amount of monthly payments
- Amount past due
- Number of missed payments
- Age of account
- Security (if any) on the account
- Name of cosigner (if any)

On the following page is an example of a debt listing sheet as used by one Consumer Credit Counseling Service. You can use this or a similar format to record your clients' debts, or adapt it to suit your own needs or that of the agency where you work.

There are a few things to keep in mind when you are listing your clients' debts. First, the client is responsible for providing you with the information. You can use up a great deal of time looking up phone numbers or addresses, trying to find out account numbers, etc. The client should be the one to do this.

Second, list all debts, even small bills and loans from family members. It is very important to have complete information about your clients' debts. This is especially true of debts where the creditor has stopped sending bills or where the bill collector has stopped calling. This account may be in a dead file now, but sooner or later it may be turned over to a collection agency. Worse yet, the creditor could take the bill to court for a judgment and insist on payment in full or garnishee the wages of the client. A wage garnishment can upset the most carefully planned budget.

Third, if you are negotiating with the creditors be sure to check with them first to see if the information you received from the client is accurate. Generally speaking you will find that your clients keep poor financial records, or none at all. The information you get from

DEBT LISTING FORM

Creditor & Address	Account # Credit Mgr. Phone	Balance	Monthly Payment	Past Due Last Paid	Security Comaker

them is often just a guess. When possible, ask to see copies of the actual bills or statements that the creditor mails to the client. This is the best source of accurate, up to date information.

TURN TO APPENDIX I AND COMPLETE EXERCISE B-4. When you have satisfactorily completed this exercise, return to the next page and begin the next section.

Discovering the Problem

In this section, we will be concentrating on finding out, for a given client, what specific uses of money are a problem. Naturally, when a client tells you (s)he spends $400 per month on booze, you've got a real clue. However, for those of you who don't know about alcoholism, alcoholics are secretive--they will never admit that they spend a great deal of money on booze.

The problems that you will see will rarely be as easy to spot as the above example. Let's face it, people aren't stupid. If people are spending a great deal of money on something wasteful, they know it. And if they ever do get to a financial counselor (which is unlikely) they are more likely to hide that fact than openly admit it.

There are two major kinds of spending patterns that result in problems:

1. Overspending on a particular item
2. General overspending

We will examine each of these types of patterns, but first, let's see how to go about determining where a client is overspending.

Earlier you saw the sample monthly expense sheet used by one Consumer Credit Counseling Service (p. 17). Filling out this expense sheet is the first step toward locating where the problem lies. When this sheet is completed, and when the client's income is determined, divide each of the amounts in the subcategories (Shelter, Food, Clothing, etc.) by the client's monthly income. This gives you the percentage of monthly income that the client has chosen to spend in each category.

Bear in mind that your client's expenses will frequently exceed their income. In these cases your percentage will total more than 100%. This indicates that the client is on a treadmill and losing ground--going deeper in debt each and every month.

Once you have determined the percentage of income that the client spends on each category, you have some extremely valuable information. You take this information and compare it to some measuring device such as an average well-balanced budget for your area, keeping in mind, of course, that there is no such thing as an average budget. Let's say that for a family of four an "ideal" average budget would be distributed, by percentages, as follows:

Shelter	25%
Food	20%
Clothing	5%
Household expenses	5%
Transportation	15%
Health	10%
Personal expenses	5%
Insurance	5%
Miscellaneous	5%
Savings	5%
	100%

The first thing you want to look for when comparing your client's expenses to the ideal budget is for overspending on a particular item. This is usually very easy to spot. When any one item exceeds your "ideal" figure by 10% or more, you usually have found a problem area. You must, of course, adjust your "ideal" figure to reflect the client's situation. A family of ten must spend more for food than a family of four.

Next, let's say that your client's figures show that they spend 40% of their income on shelter cost and 30% on transportation. It is easy to see that the remaining 30% of the client's income is not going to go very far towards covering all the other family expenses.

It is usually easy to detect when a client is overspending on a particular item. That particular expense will stand out from the others, or be considerably higher than the "ideal" you are using for comparison.

General overspending doesn't usually stand out so much as overspending on a particular item, but it is also easy to recognize. The first clue is when total expenses are over 100% of income. If the percentages in each category also exceed the "ideal" percentages that you are measuring against, you have a case of general overspending.

General overspending is usually a matter of people desiring a lifestyle that is beyond their means. It is frequently found with low-income families or large families where it is difficult to live within available income.

TURN TO APPENDIX I AND COMPLETE EXERCISE B-5. When you have completed this exercise satisfactorily, return to the next page and begin the next section.

Drawing up a New Budget

First of all understand that without a budget, without a systematic plan for spending money, it is extremely difficult for clients to change their spending behavior in a way that will solve their financial problems. The major reason why people get themselves into a financial mess is because they don't have any plan for how to use their money.

Making a budget helps people to see the limits of their financial resources. It helps them to realize that if they spend a lot of money on this, there won't be any left for that.

Step One. The first items that go into a budget are needs, what the individual or family needs in order to maintain itself. Most Americans have trouble distinguishing between needs and wants. For example, few families need two cars. In fact, if people were really creative about satisfying their transportation needs, many would probably find out that they don't even need one car. This would also be inconvenient--car-pooling, waiting for public transportation and borrowing a car are all inconvenient.

This convenience is related to lifestyle and standard of living. When clients say they need two cars (or a color TV, or cable TV, or new furniture, etc.) what they usually mean is they need them in order to maintain their present standard of living. And as was already pointed out, it is this standard of living that is often the underlying cause of the financial problem.

When entering needs into the new budget, enter BASIC needs. For a family of four this means not $400 per month for groceries. It means $200 (1977 dollars) or less. (Note: Some major cities, like New York, may require slightly more than this amount for basic food.) This amount leaves no room whatsoever for soda, potato chips, candy, other junk foods, convenience foods, etc. When the time comes to distribute money to wants, clients can elect to add money to the food budget for this type of "food."

In addition to food, the items that are entered into the new budget in this first step are other basic needs and some fixed expenses:

- Mortgage or rent payments
- Utility payments
- Court-ordered payments (child support, etc.)
- Basic clothing
- Insurance payments
- Car payments
- Medical costs
- Any other expenses that the family cannot do without.

Note carefully that not all fixed expenses are included in this list. Many debt payments are fixed expenses, but in this system of budgeting most debts are treated as a separate category, since many financial counselors will be pro-rating or adjusting debt payments. Mortgages are

never thought of as debts in this system. The mortgage payment is treated as a basic living expense.

The thing that characterizes these first items that go into the budget is they are those things that the client cannot do without. Many of you will note that the car payment is included in this step. Most people think they need a car. It is not a financial counselor's job to tell people what they need.

After these items have been entered into the new budget, add them up. If they exceed the client's income, there is a serious problem.

Step Two. If your client passes this first test, go next to the debt listing sheet. Add up the amounts of monthly payments that will have to be paid on the debts. Add this to the total of basic needs and fixed expenses. If this total exceeds the client's income, you again have a problem: fixed expenses are too high.

If you run into problems at these first stages of budget making, there are serious questions that the client must face. To lower fixed expenses may mean selling a house and getting a cheaper one or moving to a less expensive apartment. Or if there are too many debt payments, the client may have to sell a newer car and drive an old beat-up one until some of the debts are paid off.

Step Three. The third step is to go to the annual expense sheet and add up the basic expenses that can be expected to occur during the year. Divide this by twelve to get a monthly estimate of irregular expense and subtract it from the remaining income. Note that we are still working on basic needs. The irregular expenses to be included in this step are only the necessary ones--car repairs, winter clothing, etc. We are not yet ready for gifts, vacations, Christmas club, etc.

When you have completed these first three steps add up all the expenses and subtract the amount from income. The amount you have left (if any) is what remains to satisfy all the client's wants. They decide how to use this leftover money to get the most of what they want, whether it be junk food, fancier clothes, a vacation or whatever they value the most.

Step Four. In this last step, clients decide how they want to spend what is left. They choose to spend money for the things they want most or are of most value to them. When all of the client's income has been distributed on the expense sheet, you have the new budget that will enable them to provide for their basic needs, pay their debts, set aside enough to cover irregular expenses, and maybe even allow them to satisfy some of their desires for entertainment, enjoyment, etc.

It should be clear to you by now that the major problems in developing this new budget are caused by the fixed expenses that must be carried over from the client's old way of managing money. Frequently the fixed expenses throw the new budget way off balance even before it is completed.

A common example occurs with car payments. Say the client has a new car (in addition to other debts) and is having difficulty paying the bills. The car payment plus gas, oil, maintenance, insurance, etc. takes 30% of the client's income. Yet, if the car was purchased recently, it can't be sold for nearly as much as the amount of the loan, so selling the car is no solution. The client may be stuck with a high fixed expense for transportation until the car is paid for. This may reduce or eliminate entirely the amount of money available to the client for spending on entertainment or luxury items.

The most common change between the client's old way of managing money and the new budget is usually the reduction of spending for unneeded items. Long-term changes are often seen later, perhaps when the client goes to buy another car in a few years. At that time, the client may have learned to choose a less expensive car to keep fixed expenses down and free up more money for other wants.

All problem solving is related to change. The new budget that is worked out for your clients will show the changes that they have decided to make in the way they spend their money. A financial counselor does a great deal of counseling during the phase of developing the new budget. Some of the issues related to counseling clients at this stage are mentioned in this module. A full discussion of this topic is beyond the scope of this module, since this module addresses mostly the mechanics of how to develop a rehabilitative financial plan.

TURN TO APPENDIX I AND COMPLETE EXERCISE B-6. When you have completed this exercise satisfactorily, return to the next page and begin the next section.

Summary

Think of a budget as a pie, a walnut fudge-bottom pie. The situation is that you have eight guests for dinner and it's time for dessert. You can divide the pie any way you want, but remember that if you give one guest a great big piece of pie, everyone else will have to get a little piece. Or maybe some guests will get none at all.

Likewise, a budget is a way of dividing up one's limited income in such a way that basic needs are taken care of first, and what is left over is used in the best way possible so that the clients can get the most of all the various things they want.

Is there a single person who has enough money to buy everything (s)he wants? Even Howard Hughes, who left an estate of many millions of dollars when he died, couldn't get everything he wanted.

Effective budgeting is simply a way in which people plan to use their money in a way that reflects what they think is important in life. The most important things come first and the frills and things that would be nice to have or to do come later, if there is any money left for them.

The basic steps in developing a budget are quite simple, and in outline form they are as follows:

1. Determine the client's income.
2. Subtract the amount necessary to meet basic needs.
3. Subtract the amount necessary for debt repayment.
4. Set aside (SAVE) an amount to cover irregular or unexpected expenses.
5. The amount left can be used by the clients in any way that they determine is most important for them.

While the steps in developing a rehabilitative financial plan are easy, the process is much more difficult for a number of reasons. First, there is a great deal of information to systematically collect. This is time consuming.

Second, the way in which the client has been spending money cannot be totally changed overnight. Fixed expenses often exist that throw the new budget off balance before it is even completed. These carry-overs into the new budget often result in a budget that is so poorly balanced that the clients get little or nothing of what they want, or that would be nice to have or to do. This may even force clients to sell things they have just to "balance the books."

Third, by the time some clients come to a financial counselor for help, they are so far in debt that reaching an agreement with the creditors regarding debt payments is nearly impossible. One client owed over $24,000 to 43 creditors, not including the mortgage on his house! This case took two counselors, each working part-time, about two weeks just to negotiate a debt repayment plan with the creditors.

Finally, there is the problem of counseling clients about the differences between needs and wants, and developing all the various alternative ways in which the clients can make changes in the way they spend money. With clients who are cooperative and sincerely interested in solving their problems, this problem can be minor--and just a matter of spending some time with them and giving some advice. With clients who resist change and refuse to consider alternative ways of spending money this problem can be large. In some cases this can even make it impossible to reach a solution to the client's financial problem.

IMPLEMENTING THE NEW FINANCIAL PLAN

No plan, regardless of how carefully it is designed, will work if it is not followed. If a budget calls for $200 per month for groceries and the client spends $280 every month for groceries, the budget is of no more value than the paper it is written on. The procedures that are designed to put the new plan into effect are of critical importance.

Some kind of a record-keeping system is necessary. And the key element of record keeping is to make it simple. Let's start out with the simplest system possible--the envelope system.

The envelope system is nothing more than a bunch of envelopes. On each envelope you write the name of an expense category. Each payday you place the correct amount of money in each envelope according to plan. Then when an expense arises, you take money out of the appropriate envelope to pay for it.

Let's use food as an example. Say your food budget calls for $200 per month, and you get paid twice a month. Each payday you put $100 in the envelope. When you go grocery shopping, you take money out of the envelope (or take the envelope with you). When you return, you put the change and the grocery slip back in the envelope. Once a month you add up the slips and balance the food account. If you run out of money in the envelope before payday, you eat what is left in the cupboards and refrigerator.

The biggest drawback to the envelope system is that it requires cash to be lying around. There is a temptation to take a little extra from clothing to use for food, or to "borrow" a little bit from one account when you "run short." This is called the "robbing Peter to pay Paul" form of budgeting, and it doesn't work.

Another way of recording expenses is to get a big, blank sheet of paper (half a grocery bag will do nicely) and write the headings of the various expense categories at the top. Then write in the amount per month that's budgeted for that account for the month. Each time a purchase is made, it is recorded in the proper column and the remaining balance is figured. Never spend more than is budgeted in each category. Balance all the accounts at the end of each month and start a new monthly sheet.

The drawback to this method is that you have to remember to write everything down. Otherwise you will have less money in your accounts than the paper shows.

If you want to get fancy, you can go to a stationery store and buy a whole range of different kinds of accounting sheets on which you can keep fund balances, use debits and credits and do a whole range of complicated bookkeeping tricks.

For the average individual or family, a combination of systems usually works well. First, use the envelope method for groceries. Use a coin purse with one side for bills, the other for change. It takes an iron will to make it through the supermarket past all those tempting foods. The best thing to strengthen that iron will is a lack of money.

All other regular monthly expenses are best paid by drawing on a checking account. The checkbook need never leave the house. Include the rent or house payment, monthly debt payments, utilities, etc., in this account. Most areas now have banks with free checking plans, but even if it costs a couple of dollars a month, it's worth it. The cancelled checks are your receipts and your checkbook and monthly statements are your records. What could be easier?

For people who have never had a checking account, most banks have customer service employees who will show one how to write checks and balance the account. They also help people to balance their checkbooks the first few months until they learn how to do it properly.

Each month an amount should be set aside in a separate account (savings or checking, whichever you prefer) for irregular and unexpected expenses. In this account include clothing, car repairs, gifts, annual insurance payments, etc. This is the account that is most likely to cause trouble. As the amount of money in this account grows, it is tempting to go out and buy that new coat that looks so great. But what if later that month the car breaks down and the bill for your life insurance (that you forgot) suddenly appears?

In order to make this account work, you need to have a simple bookkeeping sheet to record expenses in each category of expense that is included in the account. The great advantage of keeping records is that when you are six months into your yearly plan, and you see that you have already spent most or all of what you planned to spend in a given category, you know that you are going to have trouble with that expense <u>before</u> it happens. This gives you time to plan ahead and make <u>adjustments</u> to your budget, <u>before</u> a crisis occurs.

This point about adjusting a budget is extremely important. If your budget doesn't change in response to changing times, it becomes a straitjacket. What if the federal government were to put a 50¢ per gallon surtax on gasoline--do you change your transportation budget? If you don't, you had better cut out half of your driving! If grocery prices jump 15% and you are already scraping the bottom of the shelves, you <u>must</u> increase your grocery allowance.

Budgets should be alive, growing and changing with the needs and lives of the people that made them. If the budget doesn't change with

the needs of its creators, it becomes a problem. And this module has repeatedly emphasized that problem solving is a function of change.

When clients start their first budget, they should be told that the plan they are starting is probably not totally accurate. What they are doing the first month is an experiment. What they learn in the first month gives them the information that goes into the discussion of possible budget changes for the next month.

You wouldn't walk up to a man on the street, hand him a tennis racket, and say, "Practice for a month and then you have to play Jimmy Connors, winner take all." Likewise, don't mislead clients to expect that they are going to be professional money managers in one month. They will make mistakes, errors in judgment, they'll forget to write things down, they may add or subtract wrong. If you don't expect that, you will be disappointed.

All you can do as a counselor is to try to set up, with the input of your clients, a system that you think will be most effective for them. Later on, they can (with or without your help) modify that system until it best suits their abilities and needs.

The most important ingredients in implementing any budget are:

1. Keep accurate, complete records;

2. Use the records to predict future problems and to make changes in the budget; and

3. Start a savings account.

Number three hasn't been mentioned before, but it is probably the single most important element in budgeting. Experienced financial counselors report that budgeting simply does not work without an element of savings. No matter how carefully one plans, there will always be surprises. And when that surprise is a great big unexpected expense, a "rainy day" savings account is the best problem solver.

One financial counselor observed that life in general should be exciting and one's financial life should be dull to boring. Unfortunately, for many people it is the other way around. When you plan your financial life so that you are prepared for whatever comes your way, your finances become routine and boring and you can use all the energy that once went into worry and fighting about money to get out and enjoy life. The key to doing this is saving.

TURN TO APPENDIX I AND COMPLETE EXERCISE B-7. When you have completed the exercise satisfactorily, you have completed this module.

THE END

REFERENCES for this module or for the reader to use for further study of this subject are:

Credit Counseling Centers, Inc. Credit Counselor Training Handbook. 17000 W. 8 Mile Road, Suite 280, Southfield, Michigan 48075, 1975 ($15).

Porter, Sylvia. Money Book. New York, New York 10019: Avon Books, 1975.

Simmons, Helen. Financial Counseling Manual. Blacksburg, Virginia: Virginia Polytechnic Institute and State University, 1977 (Can be ordered from National Foundation for Consumer Credit, Inc., Federal Bar Building West, 1819 H Street, NW, Washington, DC 20006; $3).

APPENDIX I

EXERCISES

NOTE: There is only one set of exercise sheets provided for this module. If more than one person is expected to use this module, we recommend that you make and use photocopies of the exercises so that the module can be re-used by others.

EXERCISE A-1

1. What three types of things can be done to solve financial problems?

   a)

   b)

   c)

2. What is the key element in problem solving?

   Why?

3. What kinds of people are best at problem solving?

(The recommended answers are on page 50. When you are satisfied with your performance of the exercise, turn back and begin the next section.)

EXERCISE A-2

1. State some ways to increase income.

2. What kinds of things should be considered before a housewife with small children goes to work?

3. In terms of problem solving, what do people do when they won't consider making changes?

4. Aside from increasing income, what other benefits can result from changing jobs?

(The recommended answers are on page 50. When you are satisfied with your performance of this exercise, turn back and begin the next section.)

EXERCISE A-3

1. List some of the reasons why it is difficult for clients to change the way they spend money?

2. What are the two basic ways of reducing expenses?

3. Should all expenses be cut down? Why?

(The recommended answers are on page 50. When you are satisfied with your performance of this exercise, turn back and begin the next section.)

EXERCISE A-4

1. What is the idea behind adjusting debts?

2. How does pro-rating work?

3. In real life, what are the problems with pro-rating?

4. Pro-rate the following accounts. The client can afford $160 per month for debt payments.

Creditor	Balance	Regular Payment	Pro-rated Payment
Centerville Hospital	$1000	$ 50	
Ace Siding Company	500	50	
3rd National Bank	1500	75	
U-Charge Card	1000	25	
Totals	$4000	$200	$160

(The recommended answers are on page 50. When you are satisfied with your performance of this exercise, turn back and begin the next section.)

EXERCISE B-1

1. What three areas of information does a counselor need to assess a client's present financial situation?

2. a) In what ways does assessing the client's present situation help the counselor?

   b) How does it help the client?

3. What was meant by "the compound nature of the solution to financial problems"?

(The recommended answers are on page 51. When you are satisfied with your performance of this exercise, turn back and begin the next section.)

EXERCISE B-2

1. What is the best general rule to go by when estimating income?

2. What advantage is there to figuring monthly income on a four-week basis, rather than 4 1/3 weeks?

(The recommended answers are on page 51. When you are satisfied with your performance of this exercise, turn back and begin the next section.)

EXERCISE B-3

1. Since most clients don't keep financial records, what is the major problem with the monthly expense figure that is determined?

2. What are the two basic kinds of expenses to look for?

(The recommended answers are on page 51. When you are satisfied with your performance of this exercise, turn back and begin the next section.)

EXERCISE B-4

1. Who is responsible for assembling all the information about the client's debts?

2. How many of the client's debts do you need to know about?

3. Should you check with creditors to see if the information the client gave you is correct?

(The recommended answers are on page 51. When you are satisfied with your performance of this exercise, turn back and begin the next section.)

EXERCISE B-5

1. What are the two general kinds of problem spending?

2. How do you determine if a client is overspending for a particular item?

3. What signs indicate that a client is generally overspending?

(The recommended answers are on page 51. When you are satisfied with your performance of this exercise, turn back and begin the next section.)

EXERCISE B-6

1. In what order are things put into the new budget?

2. Having two cars is usually a matter of _____ rather than need.

3. What kinds of expenses often throw the new budget off balance?

(The recommended answers are on page 52. When you are satisfied with your performance of this exercise, turn back and begin the next section.)

EXERCISE B-7

1. What is the key to making an effective record-keeping system?

2. What is one disadvantage of the envelope system?

3. What combination of systems was recommended in this module?

4. Why must a budget change?

5. What is the most important element in budgeting?

   Why?

(The recommended answers are on page 52. When you are satisfied with your performance of this exercise, you have completed this module.)

APPENDIX II

RECOMMENDED ANSWERS

Exercise A-1

1. a. Increase income; b. decrease expenses; c. adjust debt payments

2. Change. Because without change, the problem condition will persist.

3. Creative people who are willing to consider and make changes in their life.

Exercise A-2

1. a. Have more family members go to work; b. "moonlighting"; c. changing jobs.

2. a. Arrangements for child care; b. the extra costs resulting from her going to work.

3. They limit their alternatives for solving their problem.

4. A person may find a job that is better suited to his abilities and skills.

Exercise A-3

1. - they must break down old habits and patterns
   - they might get less of what they want
   - the way they spend now reflects their personal values and what they value.

2. Cut down and cut out.

3. No. Some expenses must be maintained in the client's best interest.

Exercise A-4

1. If you don't have enough money to pay all your bills in full, figure out how much you can pay, and send each creditor his fair share.

2. It works as a formula to use to figure out a "fair-share" payment to each creditor.

3. In real life, different creditors will react to a "fair-share" payment in different ways. The needs of the creditors must be considered as well as the percentage payment.

4. By percent of monthly payment: $40, $40, $60, $20.
   By percent of total debt: $40, $20, $60, $40.

Recommended Answers, Continued

Exercise B-1

1. Present income, present monthly expenses, present debt load.

2. a. it helps to locate the source of the client's problem.
   b. it helps the client to realize where the money goes.

3. The clients must not only cut expenses back down to their level of income, they must also cut back enough to pay off the debt.

Exercise B-2

1. Estimate low.

2. The extra uncommitted paychecks provide money for savings or a cushion for unexpected expenses.

Exercise B-3

1. There is usually no proof--it is just a "guesstimate."

2. Regular and irregular expenses.

Exercise B-4

1. The client.

2. All of them.

3. Yes, if you will be negotiating payments with them. You don't need to check with creditors if you are only advising on budgeting.

Exercise B-5

1. Overspending on a particular item and general overspending.

2. You determine what percentage of their income they spend for that item and see if they are using too much of their income on that item.

3. Expenses exceed 100% of income, and they overspend in every (or most) category.

Recommended Answers, Continued

Exercise B-6

1. First, come needs, fixed expenses, and savings for irregular expenses. Second, debt payments. Third, wants.

2. Convenience.

3. High fixed expenses.

Exercise B-7

1. Keep it simple.

2. Cash is kept in the house.

3. a) Envelope system for groceries; b) a checking account for all regular monthly expenses; c) a separate account for irregular expenses; d) savings.

4. Budgets have to change to reflect cost increases and changes in the client's wants.

5. Savings. Unexpected expenses happen to everybody. A savings account can deal with these unexpected expenses before they become a problem.